

Summaries

Introduction

James Manor

These articles – by analysts from a diversity of countries and disciplines, offering diverse views – examine the opportunities and dangers that will attend a major increase in aid. They focus mainly on the latter in order to minimise them. They examine the limited absorptive capacity of recipient governments, and the dangers posed to the inevitably slow, delicate but essential process of governance reform. They consider several problems on the donor side of the aid relationship, including the likely fragmentation of aid disbursements, and donors' incapacities and unhelpful habits. They also critically assess claims that an increase in disbursements can end the dependency on aid of recipient governments. They are concerned that a short-term surge in aid might, over the medium term lead to disappointment – undermining the case for aid. That danger is magnified by some advocates of increased aid, who have encouraged exaggerated expectations of what it can achieve.

The Case for Doubling Aid

Howard White

With a substantial increase in aid funds, it is realistic to expect to achieve several key Millennium Development Goals. There is thus a strong case for such an increase. Arguments that a surge in aid will yield diminishing or even negative returns are unconvincing and exaggerated. If donors become less intrusive and harmonise their efforts, the quality of aid can be enhanced. And concerns about the absorptive capacity of recipient governments are overstated. Capable specialists in fields like education and health are present in strength at intermediate levels across Africa, their skills untapped owing to inadequate funds. There is abundant evidence that appropriately structured aid initiatives make significant impacts. Arguments that aid discourages policy change are unconvincing – witness the extensive policy reforms of recent years. With less emphasis on technical assistance, and more on programmes to provide goods and services to the poor and on government-led initiatives, increased aid can produce substantial gains.

Don't Throw Money at Africa

Tony Killick

A surge in aid to Africa poses serious dangers. Aid dependency there, which already exceeds levels elsewhere, would grow more serious. As aid increases, its contribution to growth tails off and eventually becomes negative. The absorptive capacity of most African governments is in grave doubt. Recipient governments' access to additional aid will reduce their need to tax citizens, weakening the imperatives to listen to and account to them, and sapping taxpayers' incentives to organise to make themselves heard. The belief that enhanced aid can be accompanied by improvements in its effectiveness is also dubious. Nothing is more detrimental to effectiveness than pressure to spend. It will sacrifice quality for quantity – as the need to keep funds flowing pushes cool evaluation aside, country selectivity is eroded, and substantial amounts are thrust into fiscal systems that fail to provide even rudimentary assurance extra funds will be used in ways that donors would wish. Finally, increased aid, which will entail rich nations providing what for them is small change, might become an excuse not to tackle trade issues which would make a greater impact.

Increased Aid vs Absorptive Capacity: Opportunities Towards 2015

Paolo de Renzio

This article examines several constraints on aid effectiveness associated with the key problem of absorptive capacity, and then proposes an array of actions to address these problems. The constraints take diverse forms: macroeconomic; institutional and policy-oriented; technical and managerial; and those associated with donor behaviour. The constraints can be eased if donors do their homework; harmonise and align their strategies; design interventions with care; pay attention to macroeconomic management; renew their focus on infrastructure; and adopt innovative delivery mechanisms. The article concludes with an agenda for research which can facilitate such efforts. It is important to analyse successful examples of

macroeconomic management in periods when aid flows increased; political economy factors driving countries' development strategy choices, including the incentives created by domestic politics and by aid relationships; as well as particularly effective sectoral strategies, the use of natural resource rents, and of reform efforts that allowed for a significant step-change in public sector performance.

Major Additional Funding for the MDGs: A Mixed Blessing for Capacity Development

Ole Therkildsen

The moral case for increased aid is strong, but its advocates offer little realistic guidance on implementation – especially on tackling severe capacity constraints. Additional funding will help to address many problems, including inadequate capacity. But the problems cannot be solved as easily or as swiftly as these advocates imply. There is a crucial need for a substantial and predictable flow of development funds for the next decade and beyond. By increasing expectations about what additional funding can achieve within a short period, the risk of disappointment some years from now is increased. That would discredit the case for substantial aid flows over the longer term. This dilemma can, however, be eased. To avoid the oscillations between reckless optimism and paralysing despair that have long marred development theory and practice, the challenge of state capacity should be addressed by “hopeful realism” rather than by pretending that increased funding will work miracles. It is essential to maintain the urgency reflected in the MDG approach, but the lessons about what does and does not work in development should not be forgotten.

Implications of Substantially Increased Development Aid: The Case of Uganda

Damoni Kitabire

Current aid levels in Uganda already undermine economic conditions required for strong private investment and export-led growth. The expansion of aid-financed public expenditure has outstripped absorptive capacity in the public sector and the wider economy. Unit costs have been driven up, and many projects have not been aligned to the government's development priorities. Despite debt relief, Uganda's external debt burden has again

become unsustainable. Uganda is trying to rationalise public sector structures – a long-term process – and to make use of existing administrative structures. The creation of additional public agencies, which may result from increased aid, is not the path Uganda will take to increasing capacity. Uganda aims gradually to reduce its fiscal deficit by prioritising expenditure on those activities that contribute directly to poverty eradication (focusing on quality rather than quantity of expenditure), mobilising additional domestic resources, and reducing dependence on donor aid. Substantially increasing aid is not the way to achieve these goals in a sustainable manner.

Implications of a Major Increase in Aid to Africa: The Case of Zambia

Oliver S. Saasa

This article uses evidence from Zambia to assess the implications of increased aid. It finds that earlier surges in aid, amid attempts to promote structural adjustment, did little to promote growth or macroeconomic stabilisation. This occurred, in part, because donors insisted on too many changes at once and provided insufficient funds. Economic fundamentals changed little, and too little attention was given to poverty which rose as a result of structural adjustment. The Zambian government also suffered from insufficient political will and technical/managerial skills; poor databases and accounting systems; low analytical capacity; weak institutions; and a lack of policy clarity. To maximise the impact of increased aid, it is now crucial that donor initiatives be made compatible with Zambian (and other African) development aspirations; that processes be kept as simple as possible; that goals be achievable; and that donors invest not only in African capacity building, but in their own human capital, capacities and institutions to improve their ability to understand their proper place in the architecture of aid.

External Aid to India

Naresh C. Saxena

In *per capita* terms, India receives quite limited aid, but its constructive impact is nonetheless substantial. It provides important additionalities in social and infrastructure sectors, inculcates the habit of good project design, and promotes valuable interactions between policy-makers and social

scientists. It also brings innovative approaches into the policy process, insulates programmes from political interference, and produces better developmental outcomes. The Indian experience also reminds us of two serious concerns: political leaders' allergy to advice to improve governance, and the heavy transaction costs that fragmented donor efforts impose. Those problems (especially the latter), plus the political elite's suspicion of foreign funds, have persuaded the authorities to accept aid only from multilaterals and a few major bilateral donors – despite the fact that greater aid could produce significant improvements, especially in stagnating social indicators.

Increased Aid for Poverty Reduction: Rethinking the Policy Agenda

Rehman Sobhan

This article proposes a substantial revision of the policy agenda, in order to pursue poverty reduction. It examines the Poverty Reduction Strategy Paper (PRSP) process, the changing character of aid dependence, absorptive capacity, the governance of aid use, and incoherent donor policies – in general, and in the specific case of Bangladesh. There is a need for greater emphasis on poor people's lack of access to productive assets and on their inability to participate in the market economy. Inequities in the provision of health and education to the poor, and in the impact of governance upon them, also need more attention. These changes can only occur as a result of a deeply indigenous process of policy debate and public action. In the absence of a willingness to address these issues, increased aid will merely alleviate symptoms and not strike at the basic problem. The expansion of aid should thus be seen as a transitional process.

The State and Governance: The Main Bottlenecks for Absorbing Massively Increased Aid?

Albrecht Stockmayer

Increased aid will be injected into systems which have undergone significant governance reforms in recent years. This might yield opportunities for further progress on that front, but there is a serious danger that instead, it will impede it and even undo some of the constructive changes that have occurred. Advocates of increased aid are impatient with the gradual pace of governance reform, but it is essential

to recognise that this process takes time. It rightly entails incremental changes which – when they are shown to yield benefits for ordinary people, civil society and, not least, governments – encourage further steps in that vein. Undue haste could undermine this process, which is delicate and thus easily disrupted. Donors have lacked an integrated, coherent approach to governance reform. If this problem is not tackled, then greater donor impact – which will be a result of increased aid – could prove damaging in this sphere.

Reaching the Health MDGs with Human Resource Reforms: Financial, Educational and Management Capacities

Thomas Bossert

The capacity of recipient governments to absorb increased aid is a serious concern. This article explains a 'Capacity Assessment Tool' that has been developed for the health sector, but – with suitable adaptations – similar assessments can be conducted in other sectors. The tool makes it possible to identify and to provide rapid assessments of incapacities of various kinds, and to tackle them. It only provides an initial guide to a range of needs and possible options for addressing them, and further analysis will be required as capacity-building initiatives take shape. We need to recognise both that we do not yet have good tools for addressing the complexity of issues around the assessment of capacity, and that the solutions to the issues of capacity building are also complex. They depend on changing political opportunities, changing funding allocations, changing dynamic markets, and changing individual motivations.

Aid Ineffectiveness in Sub-Saharan Africa: The Problem of Donor Capacity

Diana Conyers and Rob Mellors

If increased aid is to yield significant benefits in Africa, donors must make changes – in their structures and procedures, and in their knowledge, skills and attitudes. They should only support programmes that have genuine commitment and ownership by recipient governments. They should only promote interventions that are appropriate to local conditions – and to understand those conditions, they must strengthen their in-house knowledge by reducing their dependence upon

consultants. This implies the need for a more sophisticated understanding of the vested interests that exist within any recipient country, some of which may pursue narrow agendas inimical to constructive outcomes. Donors should route their interventions through the existing, mainstream agencies and management structures of recipient governments. They should use – and, where necessary, encourage incremental change in – existing procedures of those governments, rather than imposing procedures of their own. They must also operate more flexibly, adapting to the conditions and structures that they encounter in recipient countries.

Aid and Governance: Doing Good and Doing Better

Aaron Schneider

An analysis of quantitative evidence from a diversity of countries indicates that increases in aid do indeed enhance government capacity, and that the positive effects continue but diminish when aid exceeds 40 per cent of Gross Domestic Product. It also indicates that when aid is delivered in a fragmented manner – which some analysts see as a likely result of increased aid – it tends to reduce capacity. An in-depth study of one case, Mozambique, reinforces these messages. The evidence presented indicates that increased aid tends to inspire greater tax effort by recipient governments, which enhances accountability to citizens. But it may also undermine

other accountability mechanisms and a social contract between states and societies. It is therefore essential that donors pay close attention to the harmonisation of their disbursements and to the maintenance and reinforcement of accountability mechanisms.

Donors' Learning Difficulties: Results, Relationships and Responsibilities

Rosalind Eyben

Transformative learning – learning that leads to fundamentally new ways of looking at an issue – is difficult for donor governments. Weak accountability for aid between donor and recipient governments, and between donor governments and their own citizens, does not encourage such learning. Drawing on ideas from complexity theory and “critical accountancy”, this article argues that the “results-based management” response to the accountability problem may have perverse effects. The exercise of power that attends that approach constrains investing in relationships that would (i) privilege different perspectives, and (ii) yield new answers to managing the turbulent environment of which donors are part and which they help to create. Aid might be more effective with less strategy and more improvisation. Happily, change appears to be afoot and the article concludes with some learning tips for donors to encourage this process.